

CITY OF LATHRUP VILLAGE
Fund Balance & Reserve Policy
Classification, Procedures and Appropriate Level
Adopted: _____
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Purpose

The City of Lathrup Village believes that sound financial management principles require that sufficient funds be retained by the City to provide a stable financial base at all times. To retain this stable financial base, the organization needs to maintain a fund balance in the General Fund that is sufficient to fund all cash flows of the organization, to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature, and to provide funds for all existing encumbrances.

The purpose of this policy is to establish a key element of the financial stability of the City of Lathrup Village by setting guidelines for fund balance. Fund balance is an important measure of economic stability. It is essential that the City of Lathrup Village maintain adequate levels of fund balance to mitigate financial risk that can occur from unforeseen revenue fluctuations, unanticipated expenditures, and similar circumstances. The fund balance also provides cash flow liquidity for the general operations of the City of Lathrup Village.

In addition, this policy addresses the City of Lathrup Village's requirements under GASB 54 surrounding the composition of fund balance, including the establishment and use of the various components of fund balance.

Definitions

Fund Balance – A governmental fund's fund balance is the difference between its assets, deferred outflows and its liabilities and deferred inflows.

Fund Balance Components – An accounting distinction is made between the portions of fund equity that are spendable and nonspendable. Under GASB 54, these are broken up into five categories:

- 1) **Nonspendable fund balance** – Amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)
- 2) **Restricted fund balance** – Amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. Examples include grants and dedicated millages.
- 3) **Committed fund balance** - Amounts constrained to specific purposes by a government itself using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- 4) **Assigned fund balance** – Amounts *intended* to be used by the government for specific purposes. Intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
- 5) **Unassigned fund balance** – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Unrestricted fund balance - Unrestricted fund balance includes committed, assigned and unassigned fund balance categories. Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

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Policies

Minimum Unrestricted Fund Balance & Reserves - General Fund

The fund balance of the City of Lathrup Village's General Fund has been accumulated to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The City of Lathrup Village's basic goal is to limit expenditures to anticipated revenue in order to maintain a balanced budget.

Reserves - It is the goal of the City of Lathrup Village to achieve and maintain an unrestricted fund balance in the general fund equal to 15% - 20% of expenditures. The use of fund balance is appropriate for one-time expenditures or to avoid creating a structural deficit.

If unassigned fund balance falls below the goal or has a deficiency, the City Administrator will treat this as a financial management priority and will implement procedures for replenishing fund balance as well as identify a timeline that will be reported to City Council. A key component of the replenishment plan will be to control operating expenditures and use budget surpluses to replenish fund balance.

Committed Fund Balance

The Lathrup Village City Council is the City of Lathrup Village's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Lathrup Village City Council at the council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance

The Lathrup Village City Council has authorized the City Administrator act as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds (Spending Prioritization)

When multiple components of fund balance are available for the same expenditure (for example, a project has both restricted and unrestricted funds available for it), spending will occur in this order – the following is the order of spending prioritization-restricted, committed, assigned, and unassigned.